Saskatchewan
Municipal Employees'
Pension Commission

Annual Report 2003

Municipal Employees' Pension Commission

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Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan
S4P 3V7

Dear Madam:

Letter of Transmittal

I have the honour to transmit herewith the sixty-second Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2003.

I have the honour to be, Madam,

Your obedient servant,

Harry Van Mulligen
Minister in Charge
Municipal Employees' Pension Commission

Saskatchewan
Public Employees
Benefits Agency

The Honourable Harry Van Mulligen
Minister in Charge
Municipal Employees' Pension Commission
Regina, Saskatchewan

Sir:

Letter of Transmittal

On behalf of the Municipal Employees' Pension Commission, I have the honour to present herewith the sixty-second Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2003.

Respectfully submitted,

Ronald Walter
Chair

INTRODUCTION

Section 7(1.1) of *The Municipal Employees' Pension Act* provides authority to the Municipal Employees' Pension Commission to administer the Municipal Employees' Pension Plan.

The Municipal Employees' Pension Commission consists of a Chairman appointed by the Lieutenant Governor in Council to represent the Government of Saskatchewan, a Vice-Chairman and eight members representing their respective associations as listed below.

NAME	POSITION	REPRESENTING
Ronald Walter	Chair	Saskatchewan Association of School Business Officials
Claire Melhoff	Vice-Chair	Saskatchewan Regional Colleges and Regional Libraries
Barry Hayden	Member	Designated Police Officers and Firefighters
Jim Reiter	Member	The Rural Municipal Administrators' Association of Saskatchewan
Keith Schneider	Member	The Saskatchewan Urban Municipalities Association
Brian Sych	Member	The Urban Municipal Administrators' Association of Saskatchewan
Bill Wells	Member	The Saskatchewan School Trustees' Association
Bonnie Ozirny	Member	The Saskatchewan School Trustees' Association
David Marit	Member	The Saskatchewan Association of Rural Municipalities
Carrie McCoshen	Member	Trade Unions

The Commission members are ultimately responsible for the Plan's administration, communication and investment activities. The major duties of the Commission include setting investment, accounting and administration policies, allocation of interest to the Plan, interaction and consultation with members and employers, and decisions with regard to member and employer issues. To discharge these and other responsibilities, the Commission may use the services of various organizations.

Municipal Employees' Pension Plan

Overview

The Municipal Employees' Pension Plan is a defined benefit plan.

The pension plan provides a monthly allowance at retirement based on a member's three highest years' average salary and on the amount of contributory service credited under the defined benefit plan.

Income Allocation

For the year 2003, the Commission allocated investment income to members' accounts at the rate of 7.3% per annum.

Investment of Funds

As trustees of the Municipal Employees' Pension Fund, the Commission is responsible for safeguarding and investing the monies of the Plan.

Responsibility for investing the assets of the Plan has been delegated to professional investment managers. Each manager invests within a specific mandate. As at December 31, 2003 the investment managers invested the following portions of the portfolio:

Investment Manager	Mandate	Percentage of Fund
Greystone Capital Mgmt. Inc.	Balanced Fund	51.5%
Foyston, Gordon & Payne	Canadian Equities	11.8%
Brandes Investment Partner, LP	Non-North American Equities	9.0%
Barclays Global Investors	Foreign Equities Indexed Fund	17.4%
Lincluden Mgmt. Ltd.	Canadian bonds	10.3%
Total		100.0%

The Commission has appointed Royal Trust as the Plan's custodian. The custodian is responsible for safekeeping of assets, income collection, settlement of investment transactions, and accounting for investment transactions.

James P. Marshall, Inc. has been retained as the Plan's investment consultant. The investment consultant monitors the activities of the investment managers and reports the results to the Commission.

Investment Policy

While the responsibility for individual investment decisions is delegated to professional investment managers, the Commission has established an investment policy.

The purpose of the policy is to provide a framework for the management of the Plan's funds within acceptable risk levels. The policy provides the investment managers with specific standards for the quantity and quality of investments, as well as rate of return objectives.

The Commission reviews the investment policy on an annual basis.

Investment Objectives

The investment managers make the day-to-day decisions of whether to buy or sell specific investments in order to achieve the long-term investment performance objectives set by the Commission. It is these long-term investment performance objectives that the Commission uses to assess the performance of the investment managers.

The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio constructed as follows:

Asset Class	Market Index*	Weight
Canadian Equities	S&P/TSX CPMS Cap 10	21%
US Equities	S&P 500 and S&P 400	18%
Non-North American Equities	MSCI EAFE	18%
Real Estate	IPDCPI	3%
Bonds	SC UBI	38%
Short Term Investments	91 Day T-Bills	2%
Total		100%

** Descriptions of these indices appear in Appendix 'A'.*

A second objective is to equal or exceed market returns over moving four-year periods, on the following indexes:

- the S&P TSX CPMS Cap 10 Index on Canadian equities;

- the S&P 500 Index on Large Cap U.S. equities;
- the S&P 400 Index on Mid Cap U.S. equities;
- the MSCI EAFE Index on non-North American equities;
- the RCPI Index on real estate; and
- the Scotia Capital Universe Bond Index on bonds.

A third objective is to achieve a minimum real rate of return of 3.5%; that is, the Canadian Consumer Price Index plus 3.5% over moving four-year periods.

The Commission reviews the investment performance of the Fund in terms of the performance of the benchmark portfolio over rolling four-year periods. The performance of investment managers is also reviewed based on the objectives set for their individual mandates. The following table summarizes the Fund's investment performance as at December 31, 2003:

	1 Year		4 Years	
	Actual	Objective	Actual	Objective
Total Fund	14.9%	14.5%	6.2%	2.5%
Greystone	11.6%	11.6%	4.0%	2.3%
Foyston	24.5%	26.7%	20.1%	1.6%
Brandes	23.8%	13.4%	1.8%	-8.6%
Lincluden	7.6%	6.7%	9.1%	8.4%
Barclays – Large Cap	30.2%	30.5%	-5.9%	-5.4%
Barclays – Mid Cap	37.4%	37.1%	N/a	7.4%
Barclays – Bonds	6.6%	6.7%	N/a	8.4%

Administration of the Plan

The Commission retains the Public Employees Benefits Agency (PEBA) to provide the day-to-day administration of the pension plan. There is an administrative contract between PEBA and the Municipal Employees' Pension Commission.

The annual operating expenditures associated with the Plan's administration are paid by the Public Employees Benefits Agency Revolving Fund, and are charged to the Municipal Employees' Pension Plan.

PEBA is responsible for accounting for all investment transactions, collecting the members' and employers' contributions, and the calculation and issuance of monthly pension benefits to pensioners. PEBA is responsible for ensuring that all transactions are done in accordance with *The Municipal Employees' Pension Act*.

PEBA issued 3,337 monthly pension payments to pensioners for the year ended December 31, 2003. PEBA's objective is to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met all deadlines in 2003.

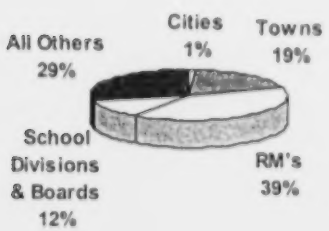
Supplemental Increase for Pensioners

Effective January 2003, the guaranteed indexing of 2% was applied to pensions earned on service prior to 1999. No ad hoc increases were applied.

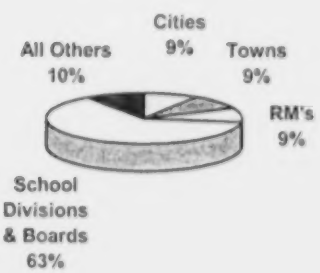
Comparative Statistics

	Active Employers		Active Members	
Cities	7	.9%	974	8.9%
Other	18	2.4%	87	0.8%
Regional Colleges	8	1.1%	345	3.2%
Regional Libraries	8	1.1%	277	2.5%
Rural Municipalities (RM's)	291	38.7%	995	9.1%
School Divisions & Boards	88	11.7%	6,863	63.0%
Towns	142	18.8%	984	9.1%
Villages	190	25.3%	370	3.4%
Total Participants	752	100.0%	10,895	100.0%

Employers



Members



Plan Membership

	2003	2002
Active	10,895	11,029
Transitional deferreds	1,722	1,592
Deferreds	1,617	1,384
Pensioners	3,337	3,236

Retirement Comparisons

	2003	2002
Normal Retirement	62	71
Early Retirement	120	107
Postponed Retirement	12	6
Other	-	1
Total Retirements	194	185

Administration Expenses

(in thousands of dollars)

	2003		2002	
	Budget	Actual	Budget	Actual
Administration costs	$2,846	$2,643	$3,121	$2,660
Custodial fees	96	164	94	95
Investment management fees				
Greystone	735	731	738	700
Foyston	396	366	397	377
Brandes	593	544	285	565
Lincluden	271	254	244	258
Barclays	101	106	148	96
	$5,038	$4,808	$5,027	$4,751

MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

Administration of the Plan is presently assigned to the Public Employees Benefits Agency of the Department of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian generally accepted accounting principles. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The present value of annuities is determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events which require approval by management.

The financial statements have been audited by Meyers Norris Penny whose report follows.

Brian Smith
Executive Director
Public Employees Benefits Agency

A. Mackrill

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

K morgan

Kathy Morgan
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
February 27, 2004

ACTUARIES' OPINION

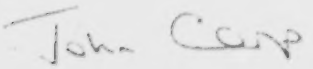
Eckler Partners Ltd. was retained by the Municipal Employees' Pension Commission (the Commission) to perform actuarial valuations of the assets and liabilities of the Municipal Employees' Pension Plan (the Plan) on an accounting basis as at December 31, 2001. Eckler Partners Ltd. was further retained to prepare an extrapolation of the financial position of the Plan from that reported in those valuations and in last year's Annual Report to December 31, 2003.

The valuations and extrapolation of the Plan's actuarial assets and liabilities were based on:

- Membership and asset data as at December 31, 2001 and financial information for 2003 provided by the Commission; and
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Eckler Partners Ltd. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. We also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuations and extrapolation have been performed in accordance with accepted actuarial practice.



John Corp, FIA, FCIA
Eckler Partners Ltd.

February 27, 2004

MUNICIPAL EMPLOYEES' PENSION COMMISSION

MUNICIPAL EMPLOYEES' PENSION PLAN

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets (deficit) available for benefits, accrued pension benefits and surplus (deficit) of the Municipal Employees' Pension Plan as at December 31, 2003 and the statements of changes in net assets (deficit) available for benefits and changes in accrued pension benefits and provision for annuity benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets (deficit) available for benefits of the Municipal Employees' Pension Plan as at December 31, 2003 and the changes in net assets (deficit) available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended December 31, 2002 were audited by other auditors, who expressed an opinion without reservation on these statements in their report dated March 28, 2003.

Meyers Norris Penny LLP

Meyers Norris Penny
Chartered Accountants

Regina, Saskatchewan

February 27, 2004

MUNICIPAL EMPLOYEES' PENSION PLAN — STATEMENT 1

STATEMENT OF NET ASSETS (DEFICIT) AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS AND SURPLUS (DEFICIT)

YEAR ENDED DECEMBER 31

(in thousands)

	2003			2002
	Defined Benefit	Retirement Annuities	Total	Total
ASSETS				
Investments (Note 3)				
Short term	$ 8,546	$ 312	$ 8,858	$ 26,837
Bonds	297,140	10,858	307,998	294,475
Equities	308,769	11,283	320,052	260,059
Pooled funds	341,187	12,468	353,655	291,571
Mortgages	1,917	70	1,987	2,250
Real estate	44,080	1,611	45,691	42,576
	1,001,639	36,602	1,038,241	917,768
Accounts receivable				
Employees' contributions	1,079	-	1,079	1,058
Employers' contributions	1,079	-	1,079	1,058
Other receivables	342	-	342	451
Accrued investment income	3,290	120	3,410	3,450
Due from General Revenue Fund (Note 4)	3,178	116	3,294	1,236
	8,968	236	9,204	7,253
Cash	(253)	-	(253)	239
Total assets	1,010,354	36,838	1,047,192	925,260
LIABILITIES				
Accounts payable	943	34	977	1,124
Provision for annuity benefits (Statement 3, Note 8)	-	37,653	37,653	40,034
Total liabilities	943	37,687	38,630	41,158
NET ASSETS (DEFICIT) AVAILABLE FOR BENEFITS	1,009,411	(849)	1,008,562	884,102
Accrued pension benefits (Statement 3, Note 7)	956,780	-	956,780	877,116
SURPLUS (DEFICIT)	$ 52,631	$ (849)	$ 51,782	$ 6,986

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN — STATEMENT 2
STATEMENT OF CHANGES IN NET ASSETS (DEFICIT) AVAILABLE FOR BENEFITS

YEAR ENDED DECEMBER 31

(in thousands)

	2003			2002
	Defined Benefit	Retirement Annuities	Total	Total
INCREASE IN ASSETS				
Investment income				
Interest	$ 20,955	$ 811	$ 21,766	$ 22,511
Dividends	16,862	652	17,514	11,665
Mortgages	89	3	92	112
Real estate	3,015	117	3,132	3,433
	40,921	1,583	42,504	37,721
Change in market value of investments	89,350	3,457	92,807	(57,902)
Contributions				
Employee contributions	15,174	-	15,174	14,278
Employer contributions	14,917	-	14,917	14,223
Reciprocal transfers in	348	-	348	637
Arrears contributions and interest	45	-	45	115
	30,484	-	30,484	29,253
Change in provision for annuity benefits (Statement 3, Note 8)	-	2,381	2,381	2,432
Total increase in assets	160,755	7,421	168,176	11,504
DECREASE IN ASSETS				
Transfers, refunds and benefit payments (Note 6)	9,566	-	9,566	16,880
Defined benefit payments	24,698	-	24,698	22,592
Annuities	-	4,644	4,644	4,835
Administration costs (Note 9)	2,544	99	2,643	2,660
Investment and custodial fees (Note 9)	2,085	80	2,165	2,091
Total decrease in assets	38,893	4,823	43,716	49,058
INCREASE (DECREASE) IN NET ASSETS	121,862	2,598	124,460	(37,554)
NET ASSETS (DEFICIT) AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	887,549	(3,447)	884,102	921,656
NET ASSETS (DEFICIT) AVAILABLE FOR BENEFITS, END OF YEAR	$1,009,411	$ (849)	$1,008,562	$884,102

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 3**
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS AND PROVISION FOR ANNUITY BENEFITS

YEAR ENDED DECEMBER 31

	(in thousands) 2003	2002
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$877,116	$809,324
Increase in accrued pension benefits		
Interest on accrued benefits	57,734	53,084
Benefits accrued	56,469	54,180
	114,203	107,264
Decrease in accrued pension benefits		
Benefits paid	34,264	39,472
Experience gains	275	-
	34,539	39,472
ACCRUED PENSION BENEFITS, END OF YEAR (Note 7)	$956,780	$877,116
PROVISION FOR ANNUITY BENEFITS, BEGINNING OF YEAR	$ 40,034	$ 42,466
Increase in provision for annuity benefits		
Interest on annuity benefits	2,263	2,403
Decrease in provision for annuity benefits		
Annuities paid	4,644	4,835
PROVISION FOR ANNUITY BENEFITS, END OF YEAR (Note 8)	$ 37,653	$ 40,034

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2003

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the Plan) is comprised of several components including defined benefits, money accumulation benefits and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the Act) provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission is responsible for holding in trust and investing the monies of the Plan. The Municipal Employees' Pension Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding Policy

Effective January 1, 1993, contributions are established at 5.4% of salary (7.3% for police officers and firefighters). Contributions prior to January 1, 1993 were established at 7% of earnings net of deemed Canada Pension Plan contributions. Contributions are matched by the employer.

B. Pensions

Employees receive a pension at age 65 (age 60 for police officers and firefighters), for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For service earned after 1989 but before 2001 and service earned after 2005, the number of years of contributory service during these periods times the greater of:

a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Component

The Money Accumulation Component consists of members who made contributions to the Money Accumulation Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. The annuity purchased from the Plan can be indexed or not. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

In addition, the accounts set up to record mandatory contributions made to the Plan prior to July 1, 1973, may also contain:

- voluntary employee and/or employer contributions made either before or after July 1, 1973 and until December 31, 1992;

- any excess employee funds transferred from the Defined Benefit Component pursuant to subsection 20(4) of *The Municipal Employees' Pension Act* up until December 31, 2000.

The Money Accumulation Component is included in the assets of the Defined Benefit Component and totals $12,250,537.

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of future annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Those annuitants who purchased indexed annuities are indexed using the Saskatchewan Consumer Price Index each January. The Commission has guaranteed indexation on pensions with service accrued before 1999 equal to the lesser of the increase in the Saskatchewan Consumer Price Index during the previous calendar year or an annual rate of 2%.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity benefits as at that date. Investment income and operating expenses have been allocated between the two components based upon the market value of assets within each component.

Valuation of Investments

Investments in bonds and equities are recorded at market values which are determined by reference to closing year end sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

Investment transactions are recorded on the trade date. Interest income is accrued monthly and dividend income is recognized on the record date.

Short term investments are valued at cost, which approximates market value.

Pooled funds are valued based on the quoted market price of the underlying investments, normally the current bid price.

Real estate is valued at market value as estimated by independent appraisals.

Mortgages are valued at their net present value by discounting cash flows to current market rates of return.

Foreign Currency

Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the trade date. Gains and losses arising on translation are included in the current period change in market value of the investments. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year end.

Provision for Annuity Benefits

Provision for annuity benefits represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the

liability pursuant to the valuation or extrapolation is recognized as a revenue or expense item in that year's operations.

3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long term horizon of the Plan's liabilities, the Plan takes a long term investment perspective. The strategy employed to achieve these objectives is to use investment managers to invest cash flows from contributions, maturing debentures, and investment returns into assets such as Canadian equities, pooled funds, money market securities and bonds.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. Interest rate risk is managed by investing in fixed income investments with varying duration.

The value of the Plan's assets is affected by short term changes in nominal interest rates and equity markets.

b) Credit Risk

Credit risk arises from the potential for a counterparty to fail or for a counterparty to default on its contractual obligations to the Plan. The Plan limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe securities below are based on a recognized credit rating service.

c) Foreign Currency Risk

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the value of investments. The Plan manages its foreign currency risk by limiting the investment in foreign funds.

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Board's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Objectives.

e) Real Estate Risk

Risk in the real estate portfolio is managed through diversification across real estate types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Short Term Investments

These investments are comprised of treasury bills, notes and commercial paper. Short term investments for the year 2003 had effective interest rates of 2.6% to 2.8% (2002 - 2.6% to 2.9%) and an average term to maturity of 69 days (2002 - 68 days). The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 11.1% (2002 - 14.6%) of the total Plan's short term investments.

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service. In addition, not more than 15% of its total bond market value may be invested in BBB rated bonds. As at December 31, 2003, the Plan held 6.7% (2002 - 7.1%) of its portfolio in BBB bonds.

The Plan's investment in bonds are described below.

	2003 (in thousands)						**2002** (in thousands)		
Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Weighted Yield to Maturity at Market	Total Market Value	Coupon Rate	Weighted Yield to Maturity at Market
Under 5	$ 76,111	$ 3,636	$48,772	$128,519	3.00-9.00%	5.0%	$141,602	2.91-9.00%	5.2%
5 to 10	52,721	25,241	21,813	99,775	4.54-10.00%	5.5%	75,709	5.15-9.50%	5.9%
Over 10	36,210	20,131	23,363	79,704	5.13-11.20%	5.7%	77,164	4.25-11.20%	5.7%
Market Value	$165,042	$49,008	$93,948	$307,998			$294,475		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 20% and 40% of the fund to be invested in foreign equities, including those held in pooled funds. As at December 31, 2003 the Plan held 7.7% (2002 – 7.1%) in foreign equities and 16.6% (2002 – 15.2%) in pooled foreign equity funds excluding synthetic funds.

All foreign equities are denominated in Canadian dollars.

The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risks. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 2.0% (2002 - 1.8%).

Pooled Funds

The Plan limits its investments in pooled equity funds to 10% of the market value of each fund. The Plan holds units in pooled funds which have no fixed interest rate and its returns are based on the success of the investment manager.

The Plan's pooled funds are comprised of:

	Market Value (in thousands)	
North American Equity	2003	2002
Barclays Synthetic US Equity Fund	$ 50,617	$ 38,892
Barclays Synthetic US Mid Cap Equity Fund	44,739	32,610
Global Equity		
Greystone Non-North American Fund	79,155	63,625
Brandes International Equity Fund	93,667	76,205
Fixed Income Funds		
Barclays Bond Fund	85,477	80,239
	$353,655	$291,571

The Barclays synthetic funds use US stock index futures combined with Canadian money market instruments to create a synthetic US equity investment, hedged into Canadian dollars.

Mortgages

All mortgages are secured by Canadian commercial properties and have effective and stated interest rates of 7.7% to 11.1% (2002 - 7.7% to 11.1%) with an average remaining term to maturity of 6.0 years (2002 - 5.9 years). Principal and interest are receivable on a monthly basis.

Real Estate

Investments in real estate consist of Canadian commercial property.

Included in the totals for real estate are holdings of SaskPen Properties Ltd. totaling $1,797,242 (2002 - $1,906,661). SaskPen Properties Ltd. is a real estate corporation beneficially owned by Crown managed pension funds in the Province of Saskatchewan. Investment income including the current period change in the market value of investments from this holding totaled $51,551 (2002 - $111,596).

4. Due from General Revenue Fund

The Municipal Employees' Pension Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Municipal Employees' Pension Plan's average daily bank account balance. The Government's thirty day borrowing rate for 2003 was 2.9% (2002 - 2.4%).

5. Earnings Allocation to Members

Part of the change in market values of investments is allocated annually to members of the Plan. The maximum market value change deferred to future years is 3% of the total market value of investments at December 31 of each year. Unallocated changes are recognized equally in each of the three subsequent years. At December 31, 2003 the increase in market value not yet allocated to members is $31,147,213 (2002 – $27,533,000).

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2003 an interest rate of 7.3% (2002 - negative 0.4%) was

approved by the Commission for the Money Accumulation Component and 7.3% (2002 - negative 0.4%) for the Defined Benefit Component. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers' fees.

6. Transfers, Refunds and Benefit Payments

	(in thousands) 2003	2002
Transfers to other retirement plans	$ 111	$ 191
Transfer to other retirement vehicles	5,385	7,910
Lump sum payments to estates	1,143	1,915
Payments in lieu of annuities	660	468
Withdrawals with interest	2,267	6,396
	$9,566	$16,880

7. Accrued Pension Benefits

The actuarial present value of pension benefits for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and the administrator's best estimate of future investment performance, salary escalation and future pension indexing.

An actuarial valuation was performed as at December 31, 2001 by Eckler Partners Ltd. and they extrapolated the results of that valuation to December 31, 2002 and December 31, 2003.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The assumptions used in determining the actuarial present value of pension benefits for the Defined Benefit Component of the Plan were:

	2003	2002
Interest rate	6.5%	6.5%
Salary escalation rate	4%	4%
Inflation	3%	3%
Indexation of pensions	100% of inflation for post 1998 benefits	100% of inflation for post 1998 benefits
Mortality	GAM 1994 (without projection)	GAM 1994 (without projection)

Actual rates may vary significantly from the long term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed escalation rates of salary 4%, interest rate 6.5% and pension indexing 3%. The changes in assumptions are independent of one another.

	Effect on Accrued Pension Benefits Liability					
	Salary		Interest Rate		Pension Indexing (post 1998)	
Assumptions	3.0%	5.0%	5.5%	7.5%	2.0%	4.0%
(Decrease) Increase	(2.9%)	3.4%	15.6%	(11.5%)	(1.5%)	1.8%

8. Provision for Annuity Benefits

The provision for annuity benefits was determined using the administrator's best estimate of future investment performance and future pension indexing. Eckler Partners Ltd. performed an actuarial valuation of annuities as at December 31, 2001 and extrapolated the results of that valuation to December 31, 2002 and December 31, 2003.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities) and mortality as follows:

	2003	2002
Interest rate	6.0%	6.0%
Indexation of pensions	3.0%	3.0%
Mortality	GAM 1994	GAM 1994

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.0% and pension indexing of 3.0%. The changes in assumptions are independent of one another.

	Effect on Provision for Annuity Benefits			
	Interest Rate		Pension Indexing	
Assumptions	5.0%	7.0%	2.0%	4.0%
(Decrease) Increase	7.3%	N/A	(0.1%)	0.2%

Since 2002, increases on non-indexed pensions will be granted to the extent that smoothed investment earnings exceed 6.0%. While an increase in the interest rate above 6.0% would normally reduce the liability, in this case there would be a corresponding increase in the amount of pension and the net affect on the liability would be zero.

9. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

(in thousands of dollars)

	2003		2002	
	Budget	Actual	Budget	Actual
	(unaudited)		(unaudited)	
Administration costs	$2,846	$2,643	$3,121	$2,660
Custodial fees	96	164	94	95
Investment management fees	2,096	2,001	1,812	1,996
	$5,038	$4,808	$5,027	$4,751

10. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $4,922,567 (2002 - $4,060,056) in Province of Saskatchewan Bonds. Investment income on these bonds, including the current period change in the market value of investments, was $433,620 (2002 - $369,943).

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

11. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long term performance objectives set by the Commission. The Commission reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	2003	Rolling Four Year Average Annual Return
Plan's actual rate of return (a)	14.9%	6.2%
Target rate of return (b)	14.5%	2.5%

(a) The annual returns are before deducting investment expenses.
(b) The Plan's target rate of return for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the Toronto Stock Exchange 300 Index, Standard & Poors 500 US Stock Index and the Scotia Capital Universe Bond Index.

12. Fair Value

For financial instruments including cash, short term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 2. The fair value of the provision for annuity benefits, as well as the accrued pension benefits, cannot be readily determined; information about these liabilities is provided in Notes 7 and 8.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

APPENDIX 'A'

DESCRIPTION OF MARKET INDICIES

S&P/TSX Composite
Effective May 1, 2002, the TSE 300 index is now known as the S&P/TSX Composite Index. The index comprises approximately 71 percent of market capitalization for Canadian-based, Toronto Stock Exchange listed companies. It is calculated on a float market capitalization and is the broadest Canadian equity index available. The index also serves as the premier benchmark for Canadian pension funds and mutual market funds.

S&P/TSX CPMS Cap 10
S&P/TSX CPMS Cap 10 Index is a capitalization-weighted index comprised of all of the stocks included in the S&P/TSX Composite Index. The float capitalization weight of any stock that exceeds 10% of the S&P/TSX Composite Index is capped at 10% of the CPMS Cap 10 Index on a daily basis.

NBSC
Nesbitt Burns Small Cap Index is made up of representative stocks with market capitalization of less than 0.1% of the S&P/TSX Composite total capitalization. The Index is capitalization-weighted and contains 400 stocks.

S&P 500
Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the Index proportionate to its market value. For the purposes of this report, the S&P 500 Index returns are converted from U.S. dollars into Canadian dollars, and therefore, reflect currency gains or losses.

S&P 400
Standard & Poor's 400 Composite Stock Index consists of 400 medium-sized companies chosen for market size, liquidity, and industry group representation. It is a market value weighted index and was the first benchmark of mid cap stock price movement.

MSCI EAFE
Morgan Stanley Capital International Europe, Australia and Far East Index is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 21 European and Pacific Basin Countries and includes reinvestment of all dividends. This index aims to capture 85% of the free float adjusted market capitalization in each industry group in each country. Individuals cannot invest directly in an index. The index is computed on a float-based capitalization.

SC UBI
Scotia Capital Markets Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 900 marketable Canadian bonds with an average term of 9 years and an average duration of 5.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

IPDCPI
The ICREIM/IPD Canadian Property Index is published by Investment Property Databank Ltd., under contract with the Canadian Institute of Real Estate Investment Managers. The index replaces the Russell Canadian Property Index, which was discontinued at the end of 2002. The IPD Index measures total returns on a diversified pool of properties. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis. The Index contains over 1,700 properties and is estimated to represent approximately 50% of institutional holdings and publicly listed vehicles.

91-Day T-Bills
Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI
Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.